

**NTS Charging Methodology Forum (NTSCMF) Minutes**  
**Tuesday 29 September 2015**  
**31 Homer Road, Solihull B91 3LT**

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Anna Shrigley*	(AS)	Eni
Alice Mitchell*	(AM)	Ofgem
Charles Ruffell	(CR)	RWEST
Colin Williams	(CW)	National Grid NTS
David Riley*	(DR)	Ofgem
Debra Hawkin	(DH)	TPA Consultants
Fabien LaRoche	(FAR)	E.ON UK
Francisco Goncalves	(FG)	Gazprom
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JCh)	SSE
Julie Cox	(JCx)	Energy UK
Laura Butterfield	(LB)	National Grid NTS
Louise Gates*	(LG)	EDF Energy
Lucy Manning	(LM)	Gazprom
Nick Wye	(NW)	Water Wye Associates
Nigel Sisman	(NS)	Sisman Energy Consultancy
Richard Fairholme	(RF)	E.ON UK
Terry Burke	(TB)	Statoil

\* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/290915>

**1. Introduction and Status Review****1.1 Minutes**

The minutes from the previous meeting (22 July 2015) were approved.

**1.2 Actions**

**0701: Forecast Peak Demand Reduction (11%)** - National Grid NTS to present the perceived impacts (charging centric), of an 11% peak demand reduction.

**Update:** See item 5. **Closed**

**1.3 Pre-Modification discussions**

JCh highlighted his intention to raise a modification to move the existing formula used to calculate the OCC from the NTS Transportation Statement by placing it into Section Y of the UNC. A draft modification was provided and JCh welcomed feedback before formal submission for either October or November's Panel meeting.

TB enquired where the methodology currently sits. CW explained there are a number of historical documents and spreadsheets where the methodology resides; the entirety of the methodology is in keeping with the UNC in relation to charges.

FG asked if SSE and National Grid NTS views were aligned. JCh expressed the need for transparency and wanted the formula in code first with the potential to consider any

changes to the formula in the future. CW explained that National Grid NTS have views on the governance of the methodology. He believed this was addressed within the presentation he planned to provide under item 5. CW was concerned about lifting and shifting the equation into the UNC as this would in effect move fixed prices into the UNC, rather than referencing a methodology, which does not fix the price. He believed this would require further exploration. GJ enquired if this was simply a mechanistic change. CW briefly explained that there are methods for updating Transportation Charges, which will need to be considered.

JCx asked, when introducing something “new” into the UNC, whether such introduction needs to be assessed against the standard relevant objectives rather than the charging relevant objectives. BF suggested the Workgroup could assess against both sets of relevant objectives.

## 2. Gas Transmission Charging Review (GTCR) - Ofgem Update

DR gave a brief update explaining that Ofgem are still considering where to go with GTCR, taking into account stakeholder responses, considering developments and the Network Code. He acknowledged the original summer target had been missed but hoped to publish something in the near future.

JCx enquired if Ofgem intend to publish something before the Tariff Code (TAR Code) comitology starts. DR couldn't comment any further at this stage.

## 3. EU Code – National Grid NTS Update

CW confirmed that National Grid NTS would be presenting some slides at the Transmission Workgroup on 01 October 2015 to provide a mechanistic update in relation to the process, procedure and a potential timetable.

CW reported there would be a DECC stakeholder session on 02 October and an informal meeting on 20 October prior to comitology commencing.

NW believed there would be a period following the Tariff Code where Ofgem will want to consider what they would like to happen. NW believed the Tariff code could be in contradiction to what Ofgem want and he was unsure what the DECC position would be. NW encouraged an early view from Ofgem to inform an industry debate.

DR explained that Ofgem will have a policy view and will speak to DECC about their views on the Tariff Code.

NW and JCx believed that the GTCR was set up to inform DECC. However, this was not DR's recollection, he confirmed Ofgem are staying in touch with DECC.

NW requested that Ofgem clarify the scope of the GTCR and if the GTCR are not informing DECC, parties need to know what Ofgem will be communicating to DECC to ensure there is no contradiction. NW confirmed he will raise this again on Friday at the DECC meeting.

**Action 0901: Ofgem to clarify the scope/roll of GTCR and communications with DECC**

## 4. NTS GCD11: NTS Gas Charging Document Report

CW presented the National Grid NTS Optional Commodity Charge (“Shorthaul”) Review - NTS GCD11 presentation and two additional papers for reference (*NTS Optional Commodity Tariff - Transco Pricing Consultation Paper* and *NTS Optional Commodity Tariff - Transco Consultation Report*).

CW provided an overview of the previous discussions, an overview of NTS GCD11, and the proposed next steps. CW explained there are some issues with the NTS Optional Commodity Charges, how it is used and that the unit cost is now out of date.

CW gave an overview of the responses provided to the questions posed within the NTS GCD11. CW wished to measure the GCD11 principle against the relevant objectives. RF

questioned the relevance of assessing GCD11 against the modification objectives to assess the change. RF suggested if the market impact is significant that a request or modification should be raised to assess all the impacts.

CW explained that 13 out of 14 respondents expressed a preference to delay a review of the methodology until there is greater certainty regarding the GTCR/EU developments. CW also highlighted that there were mixed responses to the proposed 01 April 2016 implementation date with some respondents expressing a preference for October 2016.

CW continuing with the presentation provided an overview of the discussion issues, the responses and National Grid NTS' comments.

JCx enquired about the decision not to use RPI, she believed there was a missing element in particular the Ofgem decision letter for PC9a, which provided a clear "no". JCx believed it would be helpful if the Ofgem letter were made public to allow parties to understand why the decision was made, why the industry reached the position it is at today and to better inform all parties when considering this matter further.

CW believed a stepped change was appropriate to addressing the optional commodity charge. JCx was concerned about the linkage and interactions with different areas of charges and that the end vision with shorthaul may be an override. GJ believed that the TO commodity charge should not be linked, as it swamps everything.

NS explained that the tariff was conceived to address the element risk of bypass, however the interactions have moved on and traffic had been up-taken by a big number of offtake points. Even if prices were increased he believed parties are likely to stay with the shorthaul tariff.

NW acknowledged there are structural problems and parties are aware of these. He expressed concern that cross subsidy and more complex problems may arise by trying to do a "part fix".

NW challenged why National Grid NTS discounted the RPI option, as this seemed the most logical solution. CW explained that RPI is not universally used across the different cost elements.

FG had anticipated that an RPI option would have been considered, he believed the responses made it clear that 9 out of 14 respondents didn't like option 1 or 2 and that offering RPI may change respondents views. He was concerned about elements of the consultation and whether views had been measured properly. JCh enquired if the industry were to use RPI would this remove RIO price neutrality concerns.

NW asked if there was any charging elements that exist that could be utilised or built upon. He questioned if something completely different should be considered or an element not too dissimilar to that already being used.

JCx asked if National Grid NTS would consider publishing the PC9 documents to provide the industry the full picture and enable them to try and piece together the whole picture.

NW believed that the short-term fix suggested, doesn't appear to achieve the desired result. He challenged if the industry want to undertake piece-meal changes to try and address or wait for GTCR. NW believed that the proposals provided by National Grid NTS distorts the position and creates other problems.

GJ suggested that focus should be on sorting out the deficiency before anything else happens and the industry should wait until it knows what that the charges are going to look like.

GK believed that not enough checks have been put in place to engage with Ofgem and the industry, to fully assess the impact of changes proposed by National Grid NTS. He believed with the associated impacts to the industry and consumers, that National Grid NTS should engage with all parties though a formal consultation process, as would normally take place for a UNC modification.

CW's expectation was for the industry to consider the TAR Code, the objective of the product and allow for discussions to take place.

JCx believed that parties could talk about the principles indefinitely; however, principles and prices need to be considered in tandem. Until the principles and prices are known the application cannot not be properly assessed, as it may not achieve the results expected. NW agreed there was a need for stability and a need to consider the pricing objectives.

CW asked parties to consider that changes to charges are not new, parties understood that volatility can be a problem. FG suggested this is more than just a small update, the step is significant and updating the charges has an impact on customers and their ability to avoid charges or their long-term investment strategies. He also suggested there are other considerations in how gas competes against other energy sources.

CW provided the plan and next steps. He confirmed that National Grid NTS were minded to hold making the change in light of the responses to NTS GCD11 and today's discussions, however there was a preference for some form of change by October 2016. National Grid NTS will therefore continue to discuss possible future changes.

## **5. Forecast Reduction in Peak Demand - charging impacts**

CW provided the Impact of changing demand on NTS Charges. He explained the effect of the recent demand changes on the forecast 1 in 20 peaks was to reduce demand by about 11% based on the recent DESC changes and "Go Green" scenarios.

CW confirmed that National Grid NTS need to forecast peak and annual demands. Forecasts are produced once a year in May/June. The forecast feeds into the Future Energy Scenarios (FES) and Ten Year Statement (TYS). This year's forecasts have changed significantly from those published last year. The Workgroup considered the effect on charges for the exit zones and the change in exit revenue distribution.

JCx expressed concern that the DESC had not identified a likely impact on charges when amending the current methodology. JCx acknowledged that there are a number of issues and it would be timely to consider other alternatives; she expressed concern about the sensitivity to changes affecting demand. JCx explained it is difficult for parties to make project investment decisions and the industry need to look at capacity weighted systems in parallel.

JCx challenged National Grid NTS that it is time to address the issues with the forecast reduction in demand. There are concerns that annual demand may reduce but that this may not have an impact on actual peak day demand.

CW explained that there are a number of elements to be considered. However, he was concerned about doing too much too soon. JCh suggested that National Grid NTS put together a project plan to understand the timescales, what is achievable.

NW suggested there are two obvious problems unless changes are made and that was the merit order and volatility.

GJ enquired if volatility would be reduced by making a change. He asked if there is anything the industry could do to reduce the impact.

CW highlighted there are a number of charging discussion documents, and National Grid NTS have asked Ofgem for a derogation under the licence.

It was suggested that National Grid NTS would need to kick the process for a review

CW explained that parties will not know what the allowed revenue will be until the end of November, when all the notices have been issued and final adjustments are known.

GJ believed there is good precedent for something to be done if there is going to be a big shock with prices increasing/decreasing on alternative years.

The Workgroup considered that the demand forecast had dropped by 11% in 2015. It was considered that a change in demand would have a second order effect. The annual effect was also considered and if the annual demand has dropped this would have other effects.

JCx expressed concern that there wasn't information on the stepped change and there was no prediction of such a change in demand. The change in using different data or reference points was not anticipated.

The Workgroup considered the impact on TO Entry Commodity and TO Exit Commodity.

JCx acknowledged there are issues that need resolution. The capacity related distance and see-saw effect needed to be considered.

It was agreed that the Workgroup needed to consider the issues, timescales and the need for a possible consultation. It was also recognised that the industry would also need a view from Ofgem on the ability for a one of change in April.

**Action 0902: National Grid NTS to contact Ofgem and seek a view on the possibility of a one off change in April.**

CW also agreed to provide some points for further discussion for the next meeting.

**Action 0903: National Grid NTS to provide a view on whether volatility can be addressed on a more permanent basis.**

## 6. Issues

No new issues raised.

## 7. Any Other Business

### 7.1 Charging implications of decommissioned Exit/Entry points

JCx explained that concerns had been raised within Workgroup 0553 regarding the implications of decommissioning exit/entry points such as Avonmouth and the impact this would have to the charging models when the exit/entry point may remain in the licence. It was recognised these sites would affect the commodity charges if they are still baselined. It was acknowledged that there would be no forecast demand against these sites and this needs to be fed into the exit capacity charges.

The Workgroup considered the impact on the methodology ie. what did it mean; what would the ultimate impact be; if charges go up there would be less recovery, what would the effect be of taking out the entry point; how would this influence entry prices; if exits points left in place would this affect the charges as it is in the methodology.

The Workgroup agreed there was a need to consider the impacts of exit/entry points for decommissioned sites. The workgroup will need to work through all of the consequences need to consider the accumulation.

It was agreed that a New Issue should be raised with a medium priority.

### 7.2 2016/2020 5 Year Forecast of allowed revenue

FAR enquired about National Grid NTS agreeing to publish in May and October the revenue forecasts.

CW explained there had been a delay in the revenue forecasts being produced.

FAR also confirmed that E.ON are considering a modification for obligating National Grid NTS to provide this information inline with the electricity market and DN forecasts.

## 8. Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
Wednesday 11 November 2015	31 Homer Road, Solihull B91 3LT	NTSCMF: GTCR Update EU Update NTS GCD11 Forecast Reduction in Peak Demand - charging impacts Charging implications of decommissioned Exit/Entry points <i>*Short notice may be required for some papers</i>
Wednesday 10 February 2016	31 Homer Road, Solihull B91 3LT	NTSCMF
May 2016	31 Homer Road, Solihull B91 3LT	NTSCMF

### Action Table (30 September 2015)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0701	22/07/15	5.1	Forecast Peak Demand Reduction (11%) - National Grid NTS to present on the perceived impacts (charging centric) of an 11% peak demand reduction.	National Grid NTS (CW)	Closed
0901	29/09/15	3.0	Ofgem to clarify the scope/roll of GTCR and communications with DECC.	Ofgem (DR)	Pending
0902	29/09/15	5.0	National Grid NTS to contact Ofgem and seek a view on the possibility of a one off change in April.	National Grid NTS (CW)	Pending
0903	29/09/15	5.0	National Grid NTS to provide a view on whether volatility can be addressed on a more permanent basis.	National Grid NTS (CW)	Pending